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GOVERNOR


STATE OF MICHIGAN
OFFICE OF THE STATE BUDGET
LANSING

MARY A. LANNOYE
DIRECTOR

December 29, 2006

MEMORANDUM

TO: Finance and Human Resources Officers

FROM:  Ruth Mealy, Director
Payroll and Tax Reporting Division
Office of Financial Management

SUBJECT: Calendar Year 2007 Payroll Tax Information

Detailed information regarding federal income tax and social security and Medicare taxes is available in Internal Revenue Service Publication 15 (Circular E), which can be obtained from the Internal Revenue Service web site at <http://www.irs.gov> or by calling the Internal Revenue Service at (800) 829-4933. A high-level summary of changes for Calendar Year 2007 follows.

Federal Income Tax

The bi-weekly value of a withholding allowance has increased from \$126.94 in calendar year 2006 to \$130.77 for calendar year 2007. This equates to an annual value of a withholding allowance for 2007 of \$3,400; it was \$3,300 for 2006.

For nonresident alien employees, to calculate the amount of federal income tax withholding for 2007, \$102.00 must be added to the nonresident alien's wages solely for calculating the income tax withholding (this is unchanged from 2006). The amount to be withheld is determined by applying the income tax withholding tables to the amount of wages paid plus the \$102.00. The \$102.00 will not be included in any box on the employee's Form W-2 and does not increase the income tax liability of the employee. Also, the \$102.00 does not increase the social security or Medicare tax liability of the State or employee.

As a reminder, please note that federal W-4 forms claiming exemption from withholding expire annually on February 15. If an employee previously claiming exemption from federal withholding does not give you a new W-4 form by February 15, 2007, you must change the employee's marital status to single and

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federal withholding allowances to zero. The MI HR service center is coordinating this process for participating agencies.

Premium Mileage Rate

The Internal Revenue Service has increased the standard mileage rate from 44.5 cents to 48.5 cents effective January 1, 2007. The State's "premium" mileage reimbursement rate also increases from 44.5 cents to 48.5 cents on January 1, 2007.

This change will affect your agency in two ways

- The rate used to calculate and report employees' personal use of state vehicles as a taxable fringe benefit.
- The reimbursement rate for premium mileage.

Federal Advance Earned Income Credit (EIC)

The maximum amount of income an employee can earn and still get the EIC has increased. An employee may be able to take the credit if:

- The employee has more than one qualifying child and has earned less than \$37,783 (\$39,783 if married filing jointly),
- The employee has one qualifying child and has earned less than \$33,241 (\$35,241 if married filing jointly), or
- The employee does not have a qualifying child and has earned less than \$12,590 (\$14,590 if married filing jointly).

An employee's adjusted gross income also must be less than the amount in the above list that applies to them.

As a reminder, please note that federal W-5 forms used to claim EIC expire annually on December 31. If an employee previously claiming the credit did not give you a new W-5 form by December 31, 2006, they will not be eligible for the credit until a new W-5 form is filed. The MI HR service center is coordinating this process for participating agencies.

Social Security Tax

For 2007, the social security tax rate remains at 6.20%. However, the maximum wage base has been increased from \$94,200 to \$97,500, resulting in a maximum tax of \$6,045.00.

Medicare Tax

For 2007, the Medicare tax rate remains at 1.45% with no wage ceiling.

Michigan Income Taxes

The bi-weekly value of a withholding allowance has increased from \$126.94 in calendar year 2006 to \$130.77 for calendar year 2007. This equates to an annual value of a withholding allowance for 2007 of \$3,400; it was \$3,300 for 2006.

The tax rate for 2007 is unchanged at 3.9%.

Other States and City Income Taxes

There are no significant changes in the tax or withholding rates for other city and state tax authorities.

401(k) and 457 Plans Maximum Deferrals

For 2007, the maximum deferral for employees participating in the 401(k) or 457 plans has increased from \$15,000 to \$15,500 for each plan. For those employees that qualify, the maximum catch-up deferral for employees that are at least 50 years old for 401(k) or 457 has remained unchanged at \$5,000 for each plan. The maximum catch-up deferral for employees contributing to a 457 plan and within three years of normal retirement has increased from \$15,000 to \$15,500. The total maximum 457 plan contribution for 2007, including both regular deferrals and normal retirement catch-up deferrals, has increased from \$30,000 to \$31,000.

Please direct any state employee's questions regarding the 401(k) or 457 plans to CitiStreet at (800) 748-6128 or the Plan Web Site at <http://stateofmi.csplans.com>. If after contacting CitiStreet there are further questions, the Office of Retirement Services can be contacted at (800) 381-5111.

Please direct any other questions regarding this memo to the Office of Financial Management, Payroll and Tax Reporting Division, Ed Dettling at (517) 335-7269.

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